

## Message Text

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ACTION XMB-07

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 RSR-01 /086 W

----- 113827

R 310851Z AUG 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9850

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FOR EXIM BANK

E.O. 11652: N/A

TAGS: ETRD, KS

SUBJECT: EXIM BANK FINANCING TANG DONG SHIPYARD

RER: A. STATE 167526

B. SEOUL 4206

C. SEOUL 4207

1. TANG DONG SHIPYARD PROJECT IS ONE IDENTIFIED AS SAMYANG, IN REF B, PARA 4 (D). IT IS A JOINT VENTURE BETWEEN DONG AH CONSTRUCTION CO., (WTDR 12-70) KOREA EXPRESS 07-02 (DONG AH AFFILIATE) AND SAMYANG NAVIGATION (WTDR 07-72).

2. EPB HAS RECEIVED EXIM BANK TELEX AND NOW IS CHECKING PROJECT WITH OTHER MINISTRIES CONCERNED. IF FINANCIAL PLANS ARE CONSISTENT WITH GUIDELINES MENTIONED REF C, PROJECT PROBABLY WILL RECEIVE APPROVAL. PROPOSED SITE AT TANG DONG, NORTH OF CHUNG MU, HOWEVER, IS NOT WITHIN AREA DESIGNATED BY ROKG FOR SHIPYARD CONSTRUCTION. SITE ACCEPTABILITY QUESTION IS NOW UNDER REVIEW.

3. ASSUMING SITE PROBLEM CAN BE RESOLVED, EMBASSY BELIEVES TANG TONG PROJECT IS APPROPRIATE FOR EXIM BANK FINANCING.

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DONG AH HAS SUPPLIED COPY OF FEASIBILITY STUDY AND FINANCING PLAN, LATTER ASSUMES KOREAN EQUITY OF \$26.2 MILLION, EQUIVALENT FOREIGN EQUITY INVESTMENT OF \$11.2 MILLION (NO PARTNER SELECTED YET), ROKG LOAN OF \$10.1 MILLION EQUIVALENT AND FOREIGN LOAN OF \$77.4 MILLION. IF CONSTRUCTION OPERATIONS BEGIN JANUARY 1, 1974 AND SALES OF \$40 MILLION (COMMENCEMENT OF THREE HULLS) MADE IN 1975, NET PROFIT, BEFORE TAX, OF \$1.4 MILLION IS FORECAST. BY 1977, PRODUCTION OF 1.6 MILLION DWT AND SALES OF \$236 MILLION WITH NET PRE-TAX PROFIT OF \$39 MILLION ARE ANTICIPATED. BREAK EVEN SALES POINT WOULD BE \$35 MILLION AND \$105 MILLION RESPECTIVELY. APPARENTLY BASED ON CURRENT JAPANESE BEST PRACTICE, PLANNING APPEARS QUITE THOROUGH, ESPECIALLY RE CONSTRUCTION COSTS, AND CONTAINS DETAILED PRODUCTION SCHEDULE FOR YARD AND FIRST FEW SHIPS ORDERED. PRICES ARE BASED ON MAY 31, 1973 LEVELS, AND PLAN ASSUMES PRODUCTION OF 400,000 DWT SHIPS AT SALES PRICE OF \$60 MILLION EACH, OR \$150 PER DWT. ALTHOUGH FEASIBILITY STUDY SEES PRESENT SHIPBUILDING SELLER'S MARKET CHANGING TO BUYER'S MARKET IN NEXT FEW YEARS, IT IMPLIES THE KOREAN PRICE OF \$150/DWT IS SUFFICIENTLY BELOW JULY 1973 JAPANESE PRICE OF \$172/DWT TO ENABLE TANG DONG YARD TO SECURE NEW SHIP ORDERS. SOME COST ESCALATION IS BUILT INTO PLAN, ALTHOUGH IT PROBABLY SHOULD BE UPDATED IN LIGHT OF PRESENT INTEREST RATES AND STEEL PRICES.

4. TANG DONG IS ONE OF THREE CONTENDERS FOR ROKG APPROVAL AS VLCC SHIPYARDS. OTHERS ARE SAMSUNG (EX CHEIL) AND HANJIN, INDUSTRY SOURCES STATE THAT AT LEAST TWO YARDS (IN ADDITION TO KHUNDAI AND KSEC) CAN BE VIABLE. ALTHOUGH SAMSUNG AND HANJIN MAY ALSO SUBMIT PC APPLICATIONS THIS IS NOT YET DEFINITE. IN VIEW OF POTENTIAL OPPORTUNITIES FOR U.S. EXPORT SALES, WE THINK EACH OF THESE THREE PROJECTS WOULD WARRANT EXIM BANK CONSIDERATION.

ADLER

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## Message Attributes

**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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**TAGS:** ETRD, KS  
**To:** STATE  
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